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UNCLAS SECTION 01 OF 02 RANGOON 001468

SIPDIS

SENSITIVE

STATE FOR EAP, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
CINCPAC FOR FPA

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [BM](#)

SUBJECT: BURMESE ECONOMY: YES WE HAVE NO BANANAS...OR

ANYTHING ELSE

REF: A. RANGOON 1292

- [1B.](#) RANGOON 1248
- [1C.](#) RANGOON 1233
- [1D.](#) RANGOON 958

¶11. (SBU) Summary: The regime's continued mismanagement of the Burmese economy has given another push to its downward slide in recent months. The government's increasing reliance on trade restrictions, rather than fiscal and monetary policy measures, has slashed imports and halted temporarily the plummeting of the kyat. However, this hamfisted approach will leave key structural issues completely unaddressed and, in the long run, do more harm than good. End summary.

Trade: 'Tis Better to Give than Receive

¶12. (U) GOB trade figures for the first half of 2002 reflect an improving trade balance for Burma. According to government statistics, exports have risen about 10.5 percent while imports have plummeted over 35 percent. As a result, the government can brag of the first trade surplus in many years. However, the reality for the economy is much more negative.

¶13. (SBU) The decline in imports reflects a number of factors -- including the closure of the Thai border for several months over the summer. Even more significantly, however, the government has actively discouraged imports over the past year in hopes of conserving foreign exchange. In recent weeks, import requests, all of which must be cleared at the highest levels, have been regularly denied or edited. The government requires that all foreign exchange spent on imports be offset by export earnings. Also, according to a 1998 regulation, 80 percent of an entity's imports must be off a government-approved list of "essential" items -- a list that frequently changes and often has little to do with what is truly essential to the economy.

¶14. (SBU) Exports rose during the same period largely because of Burma's increasing role as an exporter of seafood and a strong early showing for rice exports. However, exports for the full year may sink due to a sharp decline in exports of garments and textiles to the United States and growing questions over the availability of rice stocks. Reliable sources have told us that rice warehouse managers sold much of their stock when prices started to rise, expecting to buy it all back when prices fell. Continuing high prices have made this impossible. As a result, exports are being pinched during the second half of 2002. For the government, the choice will be between fulfilling export goals and keeping the people fed. As in the past, we expect the government to choose political stability over exports.

Inflation: Countdown to Blast Off

¶15. (SBU) Inflation, meanwhile, will worsen in upcoming months as import controls are felt. During the August-October period, the overall consumer price index rose 7.4 percent (with the CPI of imports leading the way with a nearly 10 percent jump). The price of key edible staples rose even faster, with rice up 14.3 percent, beans up an average of 10 percent, and fish paste up 12.5 percent.

¶16. (SBU) Official import limitations, of course, have only a partial impact on the supply of goods. Despite government efforts to crack down on illicit as well as legal imports, a robust black market in consumer goods and other imported materials has always managed to keep consumers and producers well supplied. However, as in the past, prices will increase across the board, reflecting the risks and costs associated with smuggling and black marketing.

Exchange Rate: Riding the Roller Coaster

¶17. (SBU) The dollar rate for the kyat has gyrated wildly during the past three months. After hitting an all-time high of 1310 kyat to the dollar on September 25, the kyat

appreciated nearly 24 percent to 1000 kyat/dollar by the end of October, before again dropping to about 1075 kyat/dollar.

¶ 18. (SBU) There are at least three reasons for the short-term strengthening of the kyat. First, the military-controlled Union of Myanmar Economic Holdings, Ltd. (UMEHL) lost its lucrative right to import diesel and cooking oil. Because UMEHL, unlike other importers, was not required to pay for its imports with export earnings, the holding company had been a major consumer of black market dollars. With its operations now curtailed, the demand for foreign exchange in the black market has fallen sharply. Second, the authorities cracked down on the widely popular, but illegal, gambling networks. The organizers of these gambling rings were large consumers of black market dollars, daily changing their large kyat earnings into dollars (in effect funding capital flight). Finally, seasonal factors have played a role, including a demand for kyat to fund harvest purchases, and an influx of foreign exchange as the tourist season gets underway.

¶ 19. (SBU) The kyat's recent strength, of course, will not endure, if only because the currency will shortly have to cope not only with the nearly inevitable breakdown of the government's trade controls, but also with the irresistible force of the government's annual budget financing, which is felt most clearly in the months from February through April. Each year at that time, the GOB drops several hundred billion kyat into the market, with a predictable impact on the kyat's value against all other currencies.

Investment: Bottoming Out

¶ 10. (U) The foreign investment situation could not be worse. During the first half of 2002, investment was down 97 percent from the same period a year earlier. During the first half of 2002 there was only a single approved investment, by a Hong Kong textiles firm, for a mere \$1.5 million. Opaque policymaking, corruption, government interference, and a generally bad investment climate were the prime factors behind the decline. This year, as a result, seems a total loss. However, the numbers could get a small bump up next year from expected investment in mining in the north, and in the off-shore energy sector.

Comment

¶ 11. (SBU) Watching the GOB manage the Burmese economy is like watching a man trying to tie his shoes with one hand. The GOB has only one policy tool -- trade restrictions (coupled with arrests) -- that it knows how to use at all, and it uses that tool in every contingency. Prices too high? Restrict trade! Kyat depreciating? Restrict trade (and arrest people)! Investment falling? Restrict trade (and investment)! Never, ever, however, is there any effort to develop some balance in the government's fiscal operations, or any restraint in regard to monetary policy. Given that approach, there is really little one can expect except increasing financial imbalances, soaring prices, and eventually collapsing production. Sad to say, but that is the future of the Burmese economy. End comment.
Martinez